

INCOMING TELEGRAM *Department of State*

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Control: 12827
Rec'd: DECEMBER 18, 1963
3:38 P.M.

2-SIDO
OCR/RR
RF

FROM: GENEVA

ACTION: SECSTATE TAGG 1670

INFO: BONN 110
BRUSSELS 191
THE HAGUE 80
LUXEMBOURG 96
PARIS 236
ROME 116
LONDON 117

DATE: DECEMBER 18, 1 P.M.

BRUSSELS FOR USEC; LUXEMBOURG FOR USEC; PARIS FOR USRO
FOR GOVERNOR HERTER FROM BLUMENTHAL

REFERENCES: ECBUS 783 AND DEPARTMENT CIRCULAR 1083.

WEIGHT OF EEC PROPAGANDA INCLUDING PLANTED STORIES AND DELIBERATE LEAKS TO PRESS REPEATEDLY FOCUSES ON TWO ARGUMENTS: FIRST, A DISPARITY RULE IS NECESSARY BECAUSE US TARIFF "MUCH HIGHER" AND IT THEREFORE FAIR AND JUST THAT US DO MORE CUTTING OF ITS ABNORMALLY HIGH TARIFF THAN EEC OF ITS MORE MODEST TARIFF LEVEL. SECOND, EEC TARIFF ALREADY QUITE MODEST AND 50 PERCENT CUT WOULD BRING IT DOWN SL LOW AS TO LEAVE NO "BARGAINING POWER" FOR FUTURE. THE US, WITH ITS HIGH TARIFF ON OTHER HAND, WOULD HAVE PLENTY OF BARGAINING POWER LEFT.

I AGREE WITH REFERENCE TELEGRAMS IN MEETING ABOVE ARGUMENTS IN SPEECHES AND PUBLIC STATEMENTS WE SHOULD NOT PRECIPITABLE A NUMBERS GAME, INCLUDING STERILE ARGUMENTS OVER WHOSE TARIFFS ARE HIGHER. ON OTHER HAND SINCE THE EEC'S ARGUMENTS HAVE ONLY SUPERFICIAL PLAUS

PLAUSIBILITY
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PLAUSIBILITY AND WHEN SUBJECTED TO CLOSER ANALYSIS ARE FOUND TO LACK ANY REAL ECONOMIC, FACTUAL, OR LOGICAL BASIS, IT IS IMPORTANT THAT WE ARE NOT BACKWARD IN ANSWERING THESE POINTS FORTHRIGHTLY WITH WHATEVER FACTS WE CAN MUSTER TO OUR ADVANTAGE. IN DOING SO, WE NEED NOT BE MORE PAPAL THAN THE POPE. THE EEC'S FACTS AND FIGURES ARE BY NO MEANS PERFECT AND AVERAGES THEY USE ARE QUESTIONABLE. IN OUR COUNTER ARGUMENTS, LET US THEREFORE NOT BE TOO SQUEAMISH OVER FACT THAT SOME OF OUR FIGURES ALSO DO NOT IN EVERY WAY STAND UP TO FULL SCIENTIFIC ANALYSIS.

IT WOULD SEEM QUITE ACCEPTABLE TO DRAW ON THE STUDIES PREPARED FOR THE JOINT ECONOMIC COMMITTEE OF THE US CONGRESS (TRADE RESTRAINTS IN THE WESTERN COMMUNITY) SHOWING THAT US HAS MUCH LARGER PERCENTAGE DUTY FREE AND VERY LOW DUTY ITEMS THAN EEC HAS. SIMILARLY, WE CAN ALSO POINT OUT THAT IN CERTAIN MAJOR PRODUCT GROUPS, I.E., ROAD MOTOR VEHICLES, AGRICULTURAL IMPLEMENTS, PAPER PRODUCTS, ET CETERA, US TARIFF MUCH LOWER THAN EEC'S. THIS IS OTHER SIDE OF COIN AND SHOWS THAT US TARIFFS ARE NOT GENERALLY HIGH OR NECESSARILY HIGHER THAN THE EEC'S. IT FURTHER SHOWS THAT ISSUE IS BEING DISTORTED IF PRESENTED IN TERMS OF "GENERALLY HIGH US TARIFFS" BUT RATHER WE ARE TALKING ABOUT A SMALL PART OF US TARIFF SCHEDULE ON WHICH RATES ARE INDEED HIGH. ALSO NOTHING WRONG WITH SELECTING THOSE FIGURES CITED IN LAST PARAGRAPHS ECBUS 301 WHICH INCLUD ADJUSTMENT FOB-CIF AND PRESENT COMPARISONS IN MOST FAVORABLE, I.E., BY CITING MEDIAN RATE. EEC, AFTER ALL, GENERALLY STARTS THESE PUBLIC TALKS AND HAS NEVER BEEN HESITANT ABOUT PICKING FIGURES PARTICULARLY FAVORABLE TO THEIR SIDE.

AS REGARDS BARGAINING POWER ARGUMENT, THIS IS CERTAINLY A PHONY, BUT DOES HAVE SOME POPULAR APPEAL. RE DEPARTMENT'S REQUEST

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REQUEST FOR SUGGESTIONS ON HOW TO HANDLE THIS POINT,
FOLLOWING ARGUMENTS CAN BE USED:

A) KENNEDY ROUND WILL IN ANY CASE NOT INVOLVE 50 PERCENT CUTS FOR ALL COMMODITIES. ALREADY RECOGNIZE THAT EACH COUNTRY WILL HAVE EXCEPTIONS. THESE LIKELY TO BE IN MOST SENSITIVE AREAS, I.E., IN AREAS IN WHICH IMPORT COMPETITION STRONGEST, THEREFORE BARGAINING POWER IS PRESERVED FOR FUTURE IN THE VERY AREAS IN WHICH EXPORT INTEREST OF EEC'S TRADING PARTNERS IS GREATEST.

B) MANY OF EEC'S MAJOR TRADING PARTNERS VITALLY INTERESTED IN AGRICULTURAL EXPORTS. CAP, EVEN AFTER SUCCESSFUL KENNEDY ROUND, PROTECTIVE AND PROVIDES MAJOR FUTURE BARGAINING POWER FOR EEC VIS-A-VIS ITS MOST IMPORTANT TRADING PARTNERS INCLUDING PARTICULARLY US.

C) IN ANY CASE NOT TRUE THAT A RATE OF SAY 8 TO 10 PERCENT HAS NO PROTECTIVE VALUE. THIS DEPENDS MUCH ON PRODUCT AND MANY OTHER CIRCUMSTANCES. EVEN IF EEC WERE TO CUT ALL ITS RATES TO THIS LEVEL AND HAVE NONE HIGHER THAN 10 PERCENT (WHICH IS UNLIKELY OUTCOME OF KENNEDY ROUND), THERE WOULD BE IMPORTANT BARGAINING POWER LEFT.

D) LAST BUT BY NO MEANS LEAST EEC DERIVES CONSIDERABLE BARGAINING POWER FROM FACT THAT REDUCTIONS NEGOTIATED IN KENNEDY ROUND WITH THIRD COUNTRIES WOULD BE EFFECTED AT SAME TIME THAT EEC INTERNAL TARIFF BARRIERS ARE GOING TO ZERO. FOR EXAMPLE, WHEREAS GERMANY AND US USED TO COMPETE ON SAME FOOTING IN FRENCH MARKET, GERMANS WILL NOW HAVE CONSIDERABLE ADVANTAGE OVER US (I.E. PREFERENCE OR DISCRIMINATION HAS BEEN INTRODUCED). THIRD COUNTRIES LIKE US WILL ALWAYS HAVE INTEREST IN BARGAINING TO REDUCE THIS NEW ELEMENT IN COMPETITIVE SITUATION FOR THEIR PRODUCTS IN EEC. A CERTAIN EXT THEREFORE HAS DIFFERENT SIGNIFICANCE THAN CORRESPONDING US RATE SINCE IN LATTER NEW PREFERENCE ELEMENT HAS NOT BEEN INTRODUCED.

/IN SUMMARY

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INFORMATIVE COUNSEL

IN SUMMARY, SUGGEST THAT ALL POSTS USE EVERY LEGITIMATE OPPORTUNITY TO TRY TO WEAKEN AND IF POSSIBLE DESTROY TWO ARGUMENTS REFERRED TO ABOVE AND IN DOING SO USE ALL DATA AND POINTS FAVORABLE TO US POSITION WHICH WE CAN MUSTER. WHOLE DISPARITY ARGUMENT IS AFTER ALL, TO LARGE EXTENT A COVER BEHIND WHICH EEC HIDING TO SCREEN OBJECTIVE OF MAKING LESS THAN 50 PERCENT CUTS. OUR ARGUMENT IS POLITICAL AND NOT A DEBATE IN ECONOMIC THEORY.

TUBBY

NAR/22

NOTE: RELAYED WHITE HOUSE 6:45 PM 12/18/63

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